

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON LAINGSBURG MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Laingsburg Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 14 to 86.

Accounting Officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and, the Division of Revenue Act, 2009 (Act No. 12 of 2009) (DoRA) This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009*, issued in *Government Gazette No. 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. Paragraph 11 *et seq.* of the Standard of Generally Recognised Accounting Practice *GRAP 1 Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial

year, I have determined that my audit of any disclosures made by the Laingsburg Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.

7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for qualified opinion

Financial instruments

8. IFRS 7 *Financial instruments: Disclosure* requires disclosure for those assets and liabilities that are measured in the statement of financial position at fair value. However, the municipality was unable to comply with the requirements of IFRS 7 and disclose a detailed aging of all debtors in the financial statements in the current year and the prior year as they were unable to extract this information from the system. Debtors amounted to R4, 78 million (R4, 53 million – 2009).

Material losses

9. Although the municipality did disclose the fact that material distribution losses for water had occurred as required by section 125(2)(d) of the MFMA, due to insufficient capacity and capability they were unable to quantify such losses. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of water losses.

Opinion

10. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly the financial position of the Laingsburg Municipality as at 30 June 2010 and its financial performance and its cash flows for the year then ended in accordance with the SA Standards of GRAP and in the manner required by the MFMA and DoRA.

Emphasis of matter

11. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Restatement of corresponding figures

12. As disclosed in note 31 to the financial statements, the corresponding figures for the prior period statement of financial position have been restated as a result of errors discovered during the current year ended 30 June 2010 in the financial statements of Laingsburg Municipality at, and for the year ended, 30 June 2009.

Additional matters

I draw attention to the matters below. My opinion is not modified in respect of these matters:

Material inconsistencies in other information included in the annual report

At the date of finalising my audit, the annual report has not yet been finalised. I have therefore not been able to determine if there are any inconsistencies between the audited information and other information presented in the annual report.

Unaudited supplementary schedules

13. The supplementary information set out on pages 87 to 91 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

14. As required by the PAA and in terms of General notice 1570 of 2009, issued in *Government Gazette No. 32758 of 27 November 2009* I include below my findings on the report on predetermined objectives, compliance with the following laws and regulations. MFMA, DoRA and Local Government: Municipal Systems Act of South Africa, 2000 (Act No.32 of 2000) (MSA), and financial management (internal control).

Predetermined objectives

Material findings on the report on predetermined objectives are reported below:

Non-compliance with regulatory requirements

15. The municipality's report on predetermined objectives that is to be included in the annual report was not submitted for audit purposes, together with the financial statements, within two months after the end of the financial year as required by *General Notice 1570 of 2009*, issued in *Government Gazette 32758 of 27 November 2009* and as a result has not been audited.
16. The audit committee did not review the municipality's performance management system and make recommendations to the council as required in terms of Section 166(2)(a) of the MFMA.
17. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required in terms of section 45 of the MSA.
18. The municipality does not have a single, inclusive strategic plan as required by section 25 of the MSA. Strategic information is included in the Integrated Development Plan but there is however no supporting documentation to determine how this was derived or how it links, aligns and flows through to the integrated development plan.

The following deficiencies were found:

- All the projects as per the IDP have not been included in the SDBIP. All the budgeted amounts for the projects have also not been included in the SDBIP.

- There is no evidence that the Mayor of the municipality coordinates the annual revision of the integrated development plan in terms of section 34 of the Municipal Systems Act and the preparation of the annual budget.
- There is also no evidence that the IDP is to be taken into account or revised for the purposes of the budget.

19. As per Municipal Planning and Performance Management Regulations, 2001 - regulation 15 the draft Integrated Development Plan must be distributed to the local community and they should be given 21 days to comment. However, it was determined that the draft Integrated Development Plan was not distributed to the local community.

Usefulness of reported information

The following criteria were used to assess the usefulness of the planned and reported performance:

- **Consistency:** Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
- **Relevance:** Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- **Measurability:** Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit findings relate to the above criteria:

20. There are no clearly defined targets or measurable objectives detailed in the IDP against which the municipality can measure planned performance. The targets are not clearly defined and measurable.
21. We were unable to determine if the development priorities and objectives are consistent between the IDP, budget and annual report as the projects to be completed were not included in the approved budget and since the annual report was not submitted we could not confirm consistencies with the report on predetermined objectives included in the annual report.
22. According to section 38 of the MSA a municipality must establish a performance management system. Although the municipality has a performance management system in place it is not fully utilised. Information is either not updated on the database or this is not done on a timely basis.
23. Key performance indicators have been identified for the various projects in the IDP. These key performance indicators are however not clear or well defined and do not logically and directly relate to the development priority and/or objective.

Compliance with laws and regulations

Municipal Finance Management Act, No. 56 of 2003 (MFMA)

24. A risk assessment was not conducted and a risk management strategy, which includes a fraud prevention plan, was not documented and used as set out in section 62(c)(i) of the MFMA.
25. Although Laingsburg Municipality established its own official website in accordance with section 21B of the MSA, the municipality did not place all relevant information as required in terms of section 75 of the MFMA on their website. The information not disclosed includes all performance agreements required in terms of section 57(1)(b) of the MSA; all service delivery agreements; an information statement containing a list of assets over a prescribed value, all quarterly reports tabled in the council in terms of section 52(d); and any other documents that must be placed on the website in terms of the MFMA or any other applicable legislation, or as may be prescribed.
26. Contrary to section 165 (1) of the MFMA, which requires that the internal audit must function in terms of an approved internal audit plan, no audit plan was in place during the year under review. The internal audit charter is still in draft format.
27. In terms of section 62(1)(b) of the MFMA the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards. However, no contract register is maintained.
28. In terms of Section 166(4)(b) of the MFMA each municipality must have an audit committee, subject to subsection (6). Although an audit committee was in place they did not meet all their requirements as they did not review the annual financial statements and their roles have not yet been approved as the audit committee charter is still in the process of being developed and does not yet include all the terms of reference to deal with all the committees responsibilities. The committee did not meet the required minimum number of times as set by legislation. The audit committee consisting of a majority of independent executives, but there are however no appointment letters for the audit committee members.

Municipal Systems Act, No 32 of 2000 (MSA)

29. In terms of the debt collection responsibility of municipalities, section 96, of the MSA a municipality must collect all money that is due and payable to it, subject to this Act and other applicable legislation; and for this purpose, must adopt, maintain and implement a credit control and debt collection policy which is consistent with its rates and tariff policies and complies with the provisions of this Act. The municipality does not have a bad debt write off policy.

Supply chain management

30. In terms of regulation 46 (2)(e) of the Municipal supply chain management regulations an official or other role player involved in the implementation of the supply chain management must declare to the accounting officer details of any private or business interest which that person, or any close family member, partner or associate, may have in any proposed

procurement or disposal process of, or in any award of a contract by, the municipality. The municipality does not have a declaration of interest register containing such declarations made by the Municipal Manager, Mayor, council members and employees.

31. In terms of the supply chain management regulations: 12, 16 and 17, based on the value of the transaction, inspect the supporting documentation of all expenses below R200 000 (VAT included) to determine whether the requirements relating to such have been complied with. This includes obtaining at least three (3) verbal or written quotations. If it is not possible to obtain at least three (3) written price quotations, the reasons should be recorded and approved by the CFO or his/her delegate. In a number of orders tested the 3 quotes were not obtained, or reasons not given for this deviation from the supply chain regulations.
32. Section 38(1) (a)(iii) of the MFMA requires the entity to implement and maintain an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective. Payments amounting to R 1 810 557.63 (R2 664 700.86 – 2009) were made in contravention of the supply chain management requirements. This was disclosed as irregular expenditure under note 46 of the financial statements.

INTERNAL CONTROL

33. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the relevant laws and regulations, but not for the purpose of expressing an opinion on the effectiveness of internal control
34. The matters reported below are limited to the significant deficiencies that gave rise to the basis for qualified opinion paragraph, the findings on the reports on predetermined objectives and the findings on compliance with laws and regulations.

Leadership

Oversight responsibility

- No action plan was developed to address prior year audit findings, thus the root causes/internal control deficiencies for these prior audit findings were not properly identified and mitigated by the institution of key controls to prevent similar material findings from occurring again which includes obtaining an appropriate accounting system.
- The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control as is evident from the findings relating to financial management and compliance issues reported above.

Decisive action to: mitigate emerging risks, implement timely corrective measures and address non performance

- Actions are not taken to address risks relating to the achievement of complete and accurate financial and performance reporting. This has impacted the operations regarding processes to be followed.

Financial and performance management

Quality, reliable monthly financial statements and management information

- The municipality relies on consultants to prepare their financial statements as the municipality has limited personnel with a full understanding of the financial reporting framework and performance management requirements.
- Pertinent information is not identified and captured in a form and time frame to support financial and performance reporting. As a result the annual performance report was not submitted for auditing as per the legislated deadlines.
- Material transactions and journals have not been adequately reviewed for completeness and accuracy as can be corroborated by the material misstatements identified and reported on in basis of qualification paragraph.

Adequate financial management systems

- Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.
- Systems are not appropriate to facilitate the preparation of the financial statements and performance reports. This has led to a qualification as the municipality is not in a position to provide information to be able to comply with IFRS 7 requirements.

Governance

- No risk assessment was performed during the year under review. This has led to a number of recurring findings and deficiencies in processes as listed above.
- Although there is an internal audit it did not operate effectively during the year as there was no internal audit plan developed for the period under review.
- The audit committee did not fulfil its responsibilities as set out in legislation and in accordance with accepted best practice as the implementation of internal and external audit recommendations was not monitored and the financial statements and performance reports were not reviewed prior to submission for audit.

OTHER REPORTS

Investigations

Investigations in progress

Water Losses

35. At the time of audit, an investigation was being conducted by KV3 to assess why the municipality has high water losses. This investigation has not been completed to date.

Fraud Incident

36. At the time of audit, an investigation was being conducted by the SAPS into the alleged fraud of a former cashier. A forensic audit by an external service provider concluded that the former employee was guilty of theft and has led to her being found guilty by the council and being dismissed. This has been disclosed in note 41 to the Financial Statements.

Auditor-General

Cape Town

30 November 2010



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence